

**BOARD OF UNIVERSITY
AND SCHOOL LANDS**

BISMARCK, NORTH DAKOTA

*FINANCIAL STATEMENTS
AS OF
JUNE 30, 2009 and 2008
AND
INDEPENDENT AUDITOR'S REPORT*

**BOARD OF UNIVERSITY AND SCHOOL LANDS
Bismarck, North Dakota**

June 30, 2009 and 2008

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INDEPENDENT AUDITOR'S REPORT

Governor of North Dakota
Legislative Audit and Fiscal Review Committee

Board of University and School Lands
Bismarck, North Dakota

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of University and School Lands, a department of the State of North Dakota, as of and for the years ended June 30, 2009 and 2008, which collectively comprise the Board of University and School Lands' basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Board of University and School Lands' management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1, the financial statements of the Board of University and School Lands, are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, each major fund, and the aggregate remaining fund information of the State of North Dakota that is attributable to the transactions of the Board of University and School Lands. They do not purport to, and do not, present fairly the financial position of the State of North Dakota as of June 30, 2009 and 2008, and the changes in its financial position, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 20 to the financial statements, the North Dakota Board of University and School Lands changed the way they accounted for land values. The Board does not consider these lands to be an investment but a capital asset which resulted in the overstatement of assets on the fund financial statements since capital assets are only reported on the government-wide statements. Accordingly the 2008 financial statements have been restated and an adjustment has been made to fund balances as of July 1, 2007 to correct the financial statement presentation.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Board of University and School Lands as of June 30, 2009 and 2008, and the respective changes in financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2009, on our consideration of the Board of University and School Lands' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis on pages 3 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Board of University and School Lands' basic financial statements. The combining schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Erde Bailly LLP

Bismarck, North Dakota
December 16, 2009

Management's Discussion and Analysis

As management of the Board of University and School Lands (Board), we offer readers of the Board's financial statements this narrative overview and analysis of the financial activities of the Board for the fiscal years ended June 30, 2009 and 2008. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal.

Financial Highlights

- The assets of the Board exceeded its liabilities as of June 30, 2009 and 2008 (restated), by \$1,008,605,519 and \$1,074,877,376 (*net assets*) respectively.
- The Board's net assets decreased for the year ending June 30, 2009 by \$66,271,857 and increased by \$42,480,743 for the previous fiscal year (restated).

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Board's basic financial statements. The Board's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Board's financial condition.

The *statement of net assets* presents information on all assets and liabilities managed by the Board with the difference between the two reported as *net assets*. Changes in net assets may at times, serve as a useful indicator of whether the financial position of the Board is improving or deteriorating.

The *statement of activities* presents information showing how the net assets managed by the Board changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

Fund financial statements. A *fund* is a grouping of related accounts used to maintain control of resources that have been segregated for specific objectives. The Board uses fund accounting to provide a relevant financial statement format for users and to demonstrate compliance with legal requirements. All of the funds of the Board are governmental funds.

Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the Common Schools, Coal, and the State Lands Maintenance fund. Data from the other fifteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these is provided in the *combining statements* immediately following the notes to the financial statements.

The Board is appropriated a biennial budget from the North Dakota Legislature for its State Lands Maintenance fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

Notes to the financial statements and other information. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Government-wide Financial Analysis

The largest portion of the Board's assets are represented by investments in financial securities. The Board uses these assets to provide distributions to educational entities and general government.

	Net Assets		Changes in Net Assets	
	Governmental Activities 2009	Governmental Activities 2008 (Restated)	Governmental Activities 2009	Governmental Activities 2008 (Restated)
Current and other assets	\$1,078,387,454	\$1,167,316,239	Revenues	
Capital assets	7,840,890	7,845,994	General Revenues	
Total assets	1,086,228,344	1,175,162,233	Interest on investments	\$1,552,730
Long-term liabilities	126,443	107,154	Change in fair value of investments	(378,683)
Other liabilities	77,496,382	100,177,703	Rents	273,540
Total liabilities	77,622,825	100,284,857	Royalties	19,914,455
			Loan income	715,919
Net Assets			Contributions to permanent funds	11,573,540
Net assets invested in capital assets	7,840,890	7,845,994	Taxes	21,113,546
			Donations	673,622
Restricted net assets:			Gain on sale of capital asset - land	9,568
Nonexpendable	879,305,267	941,039,855	Total General Revenues	54,774,615
Expendable	20,887,944	26,879,600	Program Revenues	
Unrestricted net assets	100,571,418	99,111,927	Interest on loans	2,873,529
Total net assets	\$1,008,605,519	\$1,074,877,376	Interest on investments	34,191,409
			Change in fair value of investments	(166,973,212)
			Rents	5,731,970
			Royalties	66,842,683
			Fees to Maintenance fund	1,431,711
			Total Program Revenue	(55,901,910)
			Total Revenues	(1,127,295)
			Expenses	
			Governmental Activities	
			General government	405,014
			Intergovernmental	2,748,460
			Education	6,198,690
			Total Expenses	9,352,164
			Excess before transfer	(10,479,459)
			Transfers	(55,792,398)
			Increase (decrease) in net assets	(66,271,857)
			Net assets - beginning adjusted	1,074,877,376
			Net assets - ending	\$1,008,605,519
				\$1,074,877,376

Financial Analysis of the Government's Funds

As noted earlier, the Board uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Board's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Board's financing requirements.

Capital Asset

The Board's capital assets for its governmental funds as of June 30, 2009 and 2008, are \$7,840,890 and \$7,845,994 (net of accumulated depreciation for equipment) respectively. These capital assets includes land and equipment. For additional details reference Note 1 - Summary of Significant Accounting Policies.

Economic Factors

The position of the funds improved during the most recent reporting period due to a strong oil and gas sector, however, did suffer from weak securities markets.

Requests for Information

This financial report is designed to provide a general overview of the Board's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the ND State Land Dept, 1707 N 9th St., PO Box 5523, Bismarck, ND, 58506-5523.

BOARD OF UNIVERSITY AND SCHOOL LANDS
Bismarck, North Dakota
Statement of Net Assets
For Fiscal Years Ended June 30, 2009 And 2008

	<u>2009</u>	<u>2008</u>
	<u>Governmental</u>	<u>Governmental</u>
	<u>Activities</u>	<u>Activities</u>
<u>Assets:</u>		
Cash	\$9,817,827	\$19,135,911
Investments	895,533,722	\$957,187,241
Interest receivable	7,510,048	\$7,527,068
Accounts receivable	11,125,725	\$14,164,382
Invested securities lending collateral	72,356,846	\$96,909,335
Loans		
Farm loans	38,334,417	\$30,570,616
School loans	33,555,340	\$31,559,891
Energy impact loans	5,106,980	\$5,455,747
Due from other state agencies	5,046,539	\$7,312,547
Capital Asset - Land	7,834,318	7,836,550
Equipment (net of accumulated depreciation)	6,572	9,444
Total Assets	<u>1,086,228,334</u>	<u>1,177,668,732</u>
<u>Liabilities:</u>		
Accrued payroll	109,423	97,123
Accounts payable	687,891	740,971
Securities lending collateral	72,356,846	96,909,335
Due to other state agencies	462,740	443,140
Claimant liability	3,872,339	4,487,587
Long-term liabilities:		
Compensated absences due within one year	7,133	6,046
Compensated absences due in more than one year	126,443	107,154
Total Liabilities	<u>77,622,815</u>	<u>102,791,356</u>
<u>Net Assets</u>		
Net assets invested in capital assets	7,840,890	7,845,994
Restricted net assets		
Nonexpendable	879,305,267	941,039,855
Expendable	20,887,944	26,879,600
Unrestricted net assets	100,571,418	99,111,927
Total Net Assets	<u>\$1,008,605,519</u>	<u>\$1,074,877,376</u>

The accompanying notes are an integral part of these financial statements.

BOARD OF UNIVERSITY AND SCHOOL LANDS

Bismarck, North Dakota

Statement of Activities

For Fiscal Years Ended June 30, 2009 And 2008

Functions/Programs	2009			2008		
	Program Revenues		Net (Expense) Revenue	Program Revenues		Net (Expense) Revenue
	Expenses	Charges for Services and Contributions		Expenses	Charges for Services and Contributions	
Governmental activities:						
General government	\$405,014		(\$405,014)	\$458,589		(\$458,589)
Intergovernmental	2,748,460		(2,748,460)	2,771,398		(2,771,398)
Education	6,198,690	1,431,711	(62,100,600)	6,507,399	2,436,711	19,434,460
Total	\$9,352,164	(\$57,333,621)	(65,254,074)	\$9,737,386	\$23,505,148	16,204,473
Net (expense) revenue						
General revenues:			(\$65,254,074)			\$16,204,473
Taxes:						
Coal severance taxes		3,426,578				3,282,610
Oil and gas taxes		-				6,000,000
Oil extraction taxes		17,686,968				20,214,624
Contributions to permanent fund		11,573,540				19,181,248
Unrestricted investment earnings		1,552,730				1,744,137
Change in fair value		(378,683)				97,944
Royalties		19,914,455				14,312,460
Loan income		715,919				872,877
Rents		273,540				332,371
Donations		-				673,622
Gain on sale of capital asset - land		9,568				211,346
Transfers:						
Transfers to/from other state agencies		(20,192,398)				(5,046,943)
Transfers to educational institutions		(35,600,000)				(35,600,000)
Total general revenues and transfers		(1,017,783)				26,276,296
Total change in net assets		(66,271,857)				42,480,769
Net assets - beginning, as previously stated		1,074,877,376				1,032,396,607
Net assets, as restated		1,074,877,376				1,032,396,607
Net assets - ending		\$1,008,605,519				\$1,074,877,376

The accompanying notes are an integral part of these financial statements.

BOARD OF UNIVERSITY AND SCHOOL LANDS
Bismarck, North Dakota
Balance Sheet
Governmental Funds
For Fiscal Years Ended June 30, 2009 And 2008

	2009					2008				
	Assets:	Common Schools	Coal Development Fund	Maintenance Fund	Energy Dev. Impact Fund	Lands & Minerals Fund	Other Governmental Funds	Total		
Cash		\$3,184,674	\$552	\$1,453,506	\$4,923,244	\$	\$255,851	\$9,817,827	\$	\$19,135,911
Investments		790,824,417	22,130,721				51,538,882	895,533,722		967,187,241
Interest receivable		6,823,393	203,566				483,388	7,510,048		7,527,068
Accounts receivable		9,472,002					334,167	11,125,725		14,164,382
Invested securities lending collateral		57,704,256	11,024,019				3,628,571	72,356,846		96,906,335
Loans										
Farm loans		35,313,309					3,021,108	38,334,417		30,570,616
School loans			33,555,340				33,555,340	31,559,891		31,559,891
Energy impact loans			5,106,960				5,106,960	5,455,747		5,455,747
Due from other state agencies		4,472,705	530,060				6,733,737	5,455,747		7,312,347
Due from other funds							533,193			
Total Assets		\$908,546,643	\$72,551,238	\$1,453,506	\$4,923,244	\$32,586,643	\$59,369,973	\$1,079,431,247	\$	\$1,176,440,424
Liabilities:										
Accrued payroll		\$	\$	\$109,423					\$	\$97,123
Accounts payable		578,108	7,910	65,520			36,353	687,891		740,971
Securities lending collateral		57,704,256	11,024,019				3,628,571	72,356,846		96,906,335
Due to other state agencies		73,600	371,042	11,804			6,294	462,740		443,140
Due to other funds		4,254	735	1,098,553			261	1,043,803		6,617,686
Claimant liability		3,872,339						3,872,339		4,487,587
Total Liabilities		\$2,232,657	\$11,403,705	\$1,225,300			\$3,671,479	\$78,533,042		\$109,295,842
Equity:										
Fund Balance:										
Permanent funds		839,490,693					53,395,955	892,886,648		947,970,677
Reserved		6,823,393					483,170	7,306,563		20,095,447
Unreserved										
Special revenue funds										
Reserved			35,452,685					35,452,685		34,117,200
Unreserved		846,314,086	25,894,847	228,206	4,923,244	32,586,643	1,819,369	85,282,309		64,961,058
Total Fund Balance		\$846,314,086	\$61,147,532	\$228,206	\$4,923,244	\$32,586,643	\$55,698,494	\$1,000,898,205		\$1,067,144,592
Total Liabilities and Fund Balance		\$908,546,643	\$72,551,238	\$1,453,506	\$4,923,244	\$32,586,643	\$59,369,973	\$1,079,431,247		\$1,176,440,424
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets										
Total fund balances - governmental funds										\$1,067,144,592
Capital asset - land										\$7,336,550
Net book value of office equipment										9,444
Liability for compensated absences										(113,300)
Net Assets of governmental activities										\$1,074,877,286

The accompanying notes are an integral part of these financial statements.

BOARD OF UNIVERSITY AND SCHOOL LANDS
Bismarck, North Dakota
Statement of Revenues, Expenditures and Changes in Fund Balance
Governmental Funds
For Fiscal Years Ended June 30, 2009 And 2008

	2009						2008							
	Common Schools	Coal Development Fund	Maintenance Fund	Energy Dev. Impact Fund	Lands & Minerals Fund	Other Governmental Funds	Total	Common Schools	Coal Development Fund	Maintenance Fund	Energy Dev. Impact Fund	Lands & Minerals Fund	Other Governmental Funds	Total
Revenues:														
Investment income	\$31,864,686	\$752,703			\$702,956	\$2,128,986	\$35,449,333	\$32,881,600	\$925,921			\$713,693	\$2,299,822	\$36,821,036
Loan income						\$217,418	\$2,759,352	2,245,345	673,922				194,308	\$2,439,653
Farm loans	2,541,934	715,919				\$715,919	\$114,177							\$673,922
School loans							\$114,177							\$198,955
Energy impact loans							\$114,177							\$164,674
Developmentally disabled loan fund loans							\$114,177							\$75,168,463
Increases/(decrease) in fair value of investments	(156,771,337)	(276,696)				(10,303,862)	(167,351,895)	(70,619,417)	177,956			(4,746,992)		(75,168,463)
Securities lending income	227,108	53,416				14,280	\$294,806	165,490	45,233			10,730		\$221,453
Royalties and bonuses	62,369,939					4,557,094	\$68,757,138	50,068,656				13,627,410	5,766,920	\$69,462,986
Rentals							\$8,005,510	5,053,786				216,300	800,625	\$6,070,711
Rental income	5,088,787					750,148	\$3,426,578		3,282,610		6,000,000			\$3,282,610
Coal severance tax		3,426,578												\$6,000,000
Oil and gas taxes														\$2,764,763
Unclaimed property collections	3,236,701						\$3,236,701	2,764,763		2,436,711				\$2,436,711
Fees	8,336,839		\$1,431,711				\$1,431,711	16,416,485						\$16,416,485
Tobacco settlement	17,686,968						\$17,686,968	20,214,624						\$20,214,624
Oil extraction tax														\$673,622
Donations														\$573,622
Total Revenues	(25,305,196)	4,671,922	1,431,711	-	20,700,636	(2,635,936)	(1,136,863)	59,356,006	5,304,597	2,436,711	6,000,000	14,557,403	4,999,035	92,653,752
Expenditures:														
Current:														
General government		56,613			307,473	17,680	381,766		55,134		2,769,121	396,529	15,495	467,158
Intergovernmental				\$2,746,553		1,907	2,748,460	4,404,781		1,763,213			2,277	2,771,398
Education	3,913,103		1,986,890			298,697	6,198,690	4,404,781					339,405	6,507,399
Total Expenditures	3,913,103	56,613	1,986,890	2,746,553	307,473	318,284	9,328,916	4,404,781	55,134	1,763,213	2,769,121	396,529	357,177	9,745,955
Excess of revenue over expenditures	(29,218,299)	4,615,309	(555,179)	(2,746,553)	20,393,163	(2,954,220)	(10,465,779)	54,951,225	5,249,463	673,498	3,230,879	14,160,874	4,641,858	\$2,907,797
Other Financing Sources (Uses):														
Transfer to Public Instruction	(33,400,000)					(2,200,000)	(35,600,000)	(33,400,000)					(2,200,000)	(37,800,000)
Transfer to Educational Institutions														
Transfer to Lignite Research Fund	(2,398,605)					(2,398,605)	(2,398,605)	(2,397,827)	(2,297,827)					(2,297,827)
Transfer to State General Fund	(1,595,841)				(15,911,000)	(286,952)	(17,506,841)	(1,960,267)	(1,960,267)			(587,349)		(2,547,616)
Transfer to Facilities Management						(286,952)	(286,952)						(201,500)	(201,500)
Proceeds from sale of land	3,700					8,100	11,800	284,551					61,449	346,000
Capital outlay expense - land													(46,948)	(46,948)
Total Other Financing Uses	(33,396,300)	(3,994,446)			(15,911,000)	(2,478,852)	(55,780,598)	(33,115,449)	(4,258,094)		-	(587,349)	(2,386,999)	(40,347,891)
Net Change in Fund Balance	(62,614,599)	620,863	(555,179)	(2,746,553)	4,482,163	(5,433,072)	(66,246,377)	21,835,776	991,369	673,498	3,230,879	13,573,525	2,254,859	42,559,906
Fund Balance - July 1, As Previously Restated	908,928,685	60,526,669	783,385	7,669,797	28,104,480	61,131,566	1,067,144,592	894,171,162	59,535,300	109,887	4,438,918	14,530,955	59,722,715	1,032,508,937
Prior Period Adjustment								(7,078,253)					(846,008)	(7,924,261)
Fund Balance - July 1, As Restated	908,928,685	60,526,669	783,385	7,669,797	28,104,480	61,131,566	1,067,144,592	887,092,909	59,535,300	109,887	4,438,918	14,530,955	58,876,707	1,024,584,676
Fund Balance - ending	\$846,314,086	\$61,147,532	\$228,206	\$4,923,244	\$32,586,643	\$55,699,494	\$1,000,898,205	\$908,928,685	\$60,526,669	\$783,385	\$7,669,797	\$28,104,480	\$61,131,566	\$1,067,144,592
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Statement of Activities														
Net change in fund balance														\$42,559,906
Net value of capital asset - land transactions														(\$134,654)
Acquired land														\$46,948
Depreciation expense on equipment														(1,745)
Office equipment additions														8,808
Increase in compensated absences liability														3,568
Net Assets of governmental activities														\$42,480,785

The accompanying notes are an integral part of these financial statements.

BOARD OF UNIVERSITY AND SCHOOL LANDS
Bismarck, North Dakota
Statement of Appropriations
June 30, 2009

	Original Appropriation	Final Adjusted Appropriation	First Year 2008 Expenditures	Second Year 2009 Expenditures	Unexpended Appropriation on 6/30/09
State Lands Maintenance Fund:					
Salaries and Wages	\$2,500,324	\$2,510,208	\$1,184,127	\$1,229,464	\$96,617
Operating Expenses	675,700	675,700	299,891	295,778	80,031
Capital Assets	10,000	10,000	8,808	-	1,192
Contingencies	50,000	50,000	-	-	50,000
	<u>\$3,236,024</u>	<u>\$3,245,908</u>	<u>\$1,492,826</u>	<u>\$1,525,242</u>	<u>\$227,840</u>
Energy Development Impact Office:					
Grants	\$5,888,100	\$5,888,100	\$0	\$1,734,233	\$5,888,100
Lands and Minerals Trust:					
North Dakota General Fund	\$15,000,000	\$15,000,000	\$0	\$15,000,000	\$0
Heritage Center	1,500,000	1,500,000	339,164	661,000	499,836
Cold War Center	250,000	250,000	-	250,000	0
Oil & Gas Division	285,000	285,000	248,186	-	36,814

Permanent Educational Trusts:

For the years ending on June 30, 2009 and June 30, 2008, the permanent educational trusts managed by the Board distributed \$35,600,000 and \$35,600,000 respectively in accordance with N.D.C.C. 15-03-05.2. For the same periods, the trusts paid administrative expenses of \$4,211,797, and \$4,468,870 respectively in accordance with N.D.C.C. 15-03-16.

Reconciliation of Administrative Expenses to Appropriated Expenditures

	Fiscal Year 2008	Fiscal Year 2009
Biennial Legislative Appropriation Expenditures	\$1,492,826	\$1,525,242
Continuing Appropriation Authority Expenditures	8,244,586	7,826,922
Total Expenses as reflected in the Financial Statements	<u>\$9,737,412</u>	<u>\$9,352,164</u>

Continuing appropriation authority is granted under N.D.C.C. 15-03, 15-04, 15-05, 15-06, 15-07, 15-08, 47-30.1 and 57-02.3.

The accompanying notes are an integral part of these financial statements.

BOARD OF UNIVERSITY AND SCHOOL LANDS
Bismarck, North Dakota
Notes to the Financial Statements
June 30, 2009 and 2008

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Statements and Reporting Entity

The Board of University and School Lands (Board) is an agency of the State of North Dakota. The Board was created under Article IX, Section 3 of the North Dakota State Constitution, and operates through the legislative authority of the North Dakota Century Code Chapters 15-01, 47-30.1, and 57-62. As a state agency, the Board is considered to be a department of the State of North Dakota and is included in the State's Comprehensive Annual Financial Report.

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

For financial reporting purposes, the Board has included all funds and has considered all potential component units for which the Board is financially accountable, and other organizations for which the nature and significance of their relationship with the Board are such that exclusion would cause the Board's financial statements to be misleading or incomplete.

The GASB has set forth criteria to be considered in determining financial accountability. This criteria includes appointing a voting majority of an organization's governing body and (1) the ability of the Board to impose its will on that organization or (2) the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the Board. Based upon this criteria, there are no component units to be included within the Board's statements and the Board is a reporting entity within the State of North Dakota as a reporting entity.

B. Fund Accounting Structure

The Board uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts. The accounting and reporting treatment applied to a fund is determined by its measurement focus.

The following fund types and funds are used to account for the Board's activities.

Permanent Funds - report resources that are legally restricted to the extent that only earnings may be used for purpose of the beneficiaries.

The Permanent Educational Trust funds account for all assets and proceeds as described in Section 11 through 19 of the Enabling Act of 1889, Article IX of the State Constitution and N.D.C.C. 15-01-02.

The Trusts own assets in the form of rangeland, producing and non-producing mineral interests, investment securities and an office building. The Common Schools Trust fund is also used to account for unclaimed property collected under the authority of N.D.C.C 57-62-05.

The beneficiaries of the Common Schools Trust are publicly funded schools, grades K-12. Other beneficiaries of various Trusts are the North Dakota State University, School for the Blind, School for the Deaf, State Hospital, Valley City State University, Mayville State University, North Dakota Youth Correction Center, School of Science, Veterans Home, and the University of North Dakota. Income from the assets held by the Ellendale Trust are allocated equally among Dickinson State University, Minot State University, NDSU-Bottineau, School for the Blind, Veterans Home, State Hospital, and State College of Science. The benefits of the original grant to the School of Mines are distributed to the University of North Dakota.

Special Revenue Funds - include operating fund activities financed by specific revenue sources that are legally restricted for specified purposes.

The State Lands Maintenance fund is used to pay operating expenses of the State Land Department.

The Coal Development Trust fund receives a portion of the coal severance tax. The trust makes loans to energy impacted entities and low interest loans to school districts for new construction. Income from the Trust is distributed to the General Fund of the State annually.

The Lands and Minerals Trust fund accounts for producing and non-producing mineral interests formerly owned by the Bank of North Dakota (BND). The income is distributed to the General Fund of the State biennially.

The Energy Development Impact Office fund provides grant assistance to counties, cities, school districts and other political subdivisions impacted by oil or gas development.

The Capitol Building Trust fund was created by the Enabling Act for the benefit of "public buildings at the capital....".

The Indian Cultural Educational Trust "is established for the purpose of generating income to benefit Indian culture....".

The Board reports the Common Schools Trust fund, Coal Development Trust fund, State Lands Maintenance fund, Energy Development Impact fund, and Lands and Minerals Trust fund as major governmental funds.

C. Basis for Accounting

Governmental fund statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as they become susceptible to accrual; generally when they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the State generally considers tax revenues to be available if they are collected within one year of the end of the fiscal period.

All revenues in the permanent funds except for taxes, tobacco settlement money and unclaimed property revenue are presented as program revenues.

The government-wide statements are reported using the economic resources management focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows.

D. Budgetary Policies and Procedures

The Board operates through a biennial appropriation provided by the State Legislature and other continuing appropriations. The Board prepares a biennial budget which is included in the Governor's budget that is presented to the General Assembly at the beginning of each legislative session. The General Assembly enacts the budgets of the various state departments through passage of specific appropriation bills. Before signing the appropriation bills, the Governor may veto any specific appropriation, subject to legislative override. Changes to the appropriation are limited to Emergency Commission authorization, initiative, or referendum action. Unexpended appropriations lapse at the end of the biennium.

Due to the lack of a formal revenue budget, a Combined Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual statement cannot be prepared as required by GAAP. In its place a Statement of Appropriations has been presented. The Statement of Appropriations has been prepared using the modified accrual basis and encumbrance accounting is not used.

E. Cash Deposits and Investments

Cash includes all funds deposited with the BND.

Investments are reported at fair value. All investment income, including changes in the fair value, is recognized in the statements of revenues, expenditures and changes in fund balance.

Cash for all funds is pooled and invested to the extent possible. Income earned from pooled investments is allocated to each of the funds based on the fund's total contribution to the pool.

F. Capital Assets

Capital assets include land valued at lower of cost or fair value; and equipment valued at historical cost or at estimated historical cost if actual cost is not available. Donated capital assets are valued at their estimated fair value on the date of donation.

All other capital assets with an original cost of \$5,000 or more per unit and an estimated useful life in excess of one year are capitalized and reported in the applicable government activities columns in the government-wide financial statements in accordance with N.D.C.C. 54-27-21.

Normal maintenance and repair costs that do not materially add to the value or extend the life of the asset are not capitalized.

Capital assets in Governmental Funds are recorded as expenditures in the funds used to acquire or construct them in the governmental fund financial statements. Capital assets, along with equipment accumulated depreciation and depreciation expense, are reported in the applicable governmental activities columns in the government-wide financial statements.

Land is not depreciated. Other capital assets are depreciated using the straight-line method over 3 to 10 years for all furniture and equipment.

G. Accumulated Unpaid Annual and Sick Leave

N.D.C.C. 54-06-14 allows employees to accrue annual leave at a variable rate between one and two days per month based on years of service. In general, accrued annual leave cannot exceed thirty days at each calendar year end. Employees are paid for unused annual leave upon termination or retirement.

Sick leave is accrued at the rate of one day per month without limitation on the amount that can be accumulated. Employees vest in sick leave at ten years of service at which time the State is liable for ten percent of the employee's accumulated unused sick leave.

H. Restricted Net Assets and Reserved Fund Balances

The expendable restricted net assets in permanent funds represent a \$10,000,000 reserve fund and the current year's excess income. The reserved fund balance represents the net corpus of the trust.

NOTE 2 - ORGANIZATION AND RELATED PARTY TRANSACTIONS

As stated in Note 1, the Board is an entity of the state of North Dakota and as such, other state agencies of the state and political subdivisions are related parties.

NOTE 3 - CONTRACT RECEIVABLES

Contract receivables result from the sale of land to individuals on contract. Title to the land passes to the purchaser when the contract has been paid in full. No contracts were canceled by the Board during the years ended June 30, 2009 and 2008.

NOTE 4 – CASH

Custodial Credit Risk

State law generally requires that all state funds be deposited in the Bank of North Dakota. N.D.C.C. 21-04-01 provides that public funds belonging to or in the custody of the state shall be deposited in the Bank of North Dakota. Also, N.D.C.C. 6-09-07 states, "[a]ll state funds ... must be deposited in the Bank of North Dakota" or must be deposited in accordance with constitutional and statutory provision.

The carrying amount of deposits with the BND and Northern Trust as of June 30, 2009 and 2008 were \$9,817,827 and \$19,135,911 respectively and the bank balances were \$14,030,889 and \$19,184,462. These differences result from timing differences of deposits processed by the Bank at year-end. These deposits are exposed to custodial credit risk as uninsured and uncollateralized. However, these deposits held at the Bank of North Dakota are guaranteed by the State of North Dakota through N.D.C.C. Section 6-09-10. The Board does not have a formal policy regarding deposits.

NOTE 5 - INVESTMENTS

The Board's investment policy is to invest Trust assets in a manner that balances the growth of the portfolio for the benefit of future beneficiaries with maintaining income for distributions to current beneficiaries. This is accomplished by investing in a widely diversified portfolio.

N.D.C.C. 15-03-04 requires that the Board apply the prudent investor rule in investing the funds under its control. Application of the prudent investor rule dictates that investments of the Board should be made using the same judgment and care that an institutional investor of ordinary prudence, discretion, and intelligence exercises in the management of large investments entrusted to it.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of investments. The Board manages its exposure by maintaining a diversified portfolio that contains a wide variety of maturity dates and credit ratings for the debt securities held. The Board has adopted an asset allocation schedule and approves the hiring of all managers within the various asset classes. The Board does not have a formal policy regarding the maturities of its investments.

The following tables show the investments by type, amount and duration and assumes the call dates as the maturity dates.

Fiscal Year 2009

Investment Type	Maturity Amount	Weighted Average Maturity (years)
Asset Backed Securities	\$4,443,771	0.259955
Commercial Mortgage-Backed	3,901,000	0.399111
Corporate Bonds	148,076,463	2.948175
TIPS Fund	85,420,019	1.506237
Corporate Convertible Bonds	63,994,160	2.587824
Government Agencies	12,934,186	0.321998
GNMA Fund	41,086,905	0.382396
Short Bond Fund	55,251,975	0.318738
Government Bonds	27,938,107	0.669638
Government Mortgage Backed Securities	60,747,859	4.499713
Gov't-issued Commercial Mortgage-Backed	1,314,438	0.107913
Guaranteed Fixed Income	1,271,663	0.150210
Index Linked Government Bonds	1,677,341	0.058342
Municipal/Provincial Bonds	1,110,339	0.017857
Non-Government Backed CMOs	8,126,675	0.650056
Other Fixed Income	23,061	0.000000
Short Term Bills and Notes	4,647,927	0.010273
Short Term Investment Funds	19,734,948	0.000000
Total	<u>\$541,700,836</u>	<u>14.888436</u>

Fiscal Year 2008

Investment Type	Maturity Amount	Weighted Average Maturity (years)
Asset Backed Securities	\$6,259,061	0.372189
Commercial Mortgage-Backed	12,264,204	1.167744
Corporate Bonds	124,228,656	2.829885
TIPS Fund	98,626,312	1.741823
Lazard Funds	5,646,987	0.071423
Corporate Convertible Bonds	61,057,398	2.989128
Government Agencies	14,594,593	0.179911
GNMA Fund	41,608,724	0.730031
Short Bond Fund	47,522,102	0.231810
Government Bonds	29,438,492	0.612229
Government Mortgage Backed Securities	61,793,105	4.863220
Gov't-issued Commercial Mortgage-Backed	1,424,518	0.123756
Municipal/Provincial Bonds	1,708,959	0.035615
Non-Government Backed CMOs	12,895,078	1.221047
Short Term Bills and Notes	8,539,112	0.004927
Short Term Investment Funds	12,742,636	0.000000
Total	<u>\$540,349,936</u>	<u>17.174738</u>

The tables above include the market value of our inflation indexed bonds. The principal balances of these bonds are adjusted every six months based on the inflation index for the period.

Other investments included above, such as variable rate collateralized mortgage obligations (CMOs), have a high degree of sensitivity to interest rate changes. As of June 30, 2009 and 2008, respectively, the Board held \$5,485,465 and \$10,559,947 in variable rate CMOs.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Board maintains a diversified portfolio of debt securities encompassing a wide range of credit ratings. Each debt securities manager is given a specific set of guidelines to invest within based on the mandate for which it was hired. The guidelines specify in which range of credit, and to what extent within the ranges, the manager may invest. The Board does not have a formal policy regarding credit risk. The following table presents the Board's ratings as of June 30, 2009 and 2008, respectively.

Credit Risk Ratings

Fiscal Year 2009

	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Not Rated	US Government
Asset Backed Securities	\$1,434,666			\$819,100							\$2,190,005	
Commercial Mortgage-Backed	3,901,000											
Corporate Bonds	104,924	\$5,158,154	\$27,174,067	44,250,083	\$41,928,433	\$23,734,375	\$5,077,209	\$182,000	\$111,250		355,968	
TIPS Fund											85,420,019	
Corporate Convertible Bonds	1,256,564		10,674,365	15,989,627	10,103,156	7,485,850	1,047,158				17,437,440	
Government Agencies	10,963,954			720,156							1,250,076	
GNMA Fund											41,086,905	
Short Bond Fund											55,251,975	
Government Bonds	18,822,568		1,127,354	1,209,600							3,784,805	2,993,780
Government Mortgage Backed Securities												60,747,859
Gov't-issued Commercial Mortgage-Backed												1,314,438
Guaranteed Fixed Income	831,613										440,050	
Index Linked Government Bond	1,677,341											
Municipal/Provincial Bonds		\$1,110,339				237,820	1,444,676				1,475,050	
Non-Government Backed	2,980,810			1,988,318							23,061	
Other Fixed Income												4,647,927
Short Term Bills and Notes												
Short Term Investment Funds	19,734,948											
	\$61,708,388	\$6,268,493	\$38,975,786	\$64,976,884	\$52,031,569	\$31,458,045	\$7,569,043	\$182,000	\$111,250		\$208,715,354	\$69,704,004

Fiscal Year 2008

	AAA	AA	A	BBB	BB	B	CCC	CC	C	D	Not Rated	US Government
Asset Backed Securities	\$2,334,381			\$1,169,762							\$2,754,918	
Commercial Mortgage-Backed	9,952,236										2,311,968	
Corporate Bonds	3,396,529	\$3,474,591	\$24,761,599	28,843,344	\$37,300,446	\$23,177,453	\$2,105,878				1,168,816	
TIPS Fund											98,626,312	
Lazard Fund											5,646,987	
Corporate Convertible Bonds	1,432,035		7,347,881	14,080,143	12,841,958	7,031,858					18,323,523	
Government Agencies	13,796,630			797,963								
GNMA Fund											41,608,724	
Short Bond Fund											47,522,102	
Government Bonds	23,813,778		1,349,128	1,178,800							3,096,786	
Government Mortgage Backed Securities												61,793,105
Gov't-issued Commercial Mortgage-Backed												1,424,518
Municipal/Provincial Bonds		\$1,708,959										
Non-Government Backed	10,466,146										2,428,932	
Short Term Bills and Notes	199,214											8,339,898
Short Term Investment Funds	12,742,635											
	\$78,133,584	\$5,183,550	\$33,458,608	\$46,070,012	\$50,142,404	\$30,209,311	\$2,105,878				\$223,489,068	\$71,557,521

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment. The Board treats currency exposure in two different ways, depending on the type of investment. For the Board's international equity portfolio, the currency exposure is not hedged as currency exposure is one of the things that add diversity to the overall portfolio. In the case of foreign bonds, the Board fully hedges the currency exposure as the purpose of this portfolio is to generate income to distribute to trust beneficiaries. The Board does not have a formal policy regarding foreign currency risk. The Board's exposure to foreign currency risk is presented in the following tables:

Fiscal Year 2009

Currency	Debt	Equity	Total
Australian dollar	\$(15,575)	\$5,894,177	\$5,878,602
British pound sterling	(15,439)	16,810,227	16,794,788
Canadian dollar	(42,105)	-	(42,105)
Danish krone	78,240	1,491,887	1,570,127
Euro	(328,406)	27,375,723	27,047,317
Hong Kong dollar	-	2,078,859	2,078,859
New Zealand dollar	11,635	97,829	109,464
Norwegian krone	(3,200)	301,638	298,438
Mexican peso	(12,390)	-	(12,390)
Swedish krona	-	1,589,716	1,589,716
Japanese yen	-	19,745,087	19,745,087
Singapore dollar	-	1,116,877	1,116,877
Swiss franc	-	4,736,538	4,736,538
	<u>\$(327,240)</u>	<u>\$81,238,558</u>	<u>\$80,911,318</u>

Fiscal Year 2008

Currency	Debt	Equity	Total
Australian dollar	\$(116,016)	\$6,073,017	\$5,957,001
British pound sterling	(205,076)	21,909,441	21,704,365
Canadian dollar	9,439	-	9,439
Danish krone	(54,501)	1,442,118	1,387,617
Euro	(869,344)	29,021,500	28,152,156
Hong Kong dollar	-	2,051,211	2,051,211
New Zealand dollar	35,485	107,487	142,972
Norwegian krone	(38,348)	2,024,339	1,955,991
Mexican peso	7,423	-	7,423
Swedish krona	-	2,087,040	2,087,040
Japanese yen	-	19,240,179	19,240,179
Singapore dollar	-	1,039,041	1,039,041
Swiss franc	-	4,577,156	4,577,156
	<u>\$(1,260,938)</u>	<u>\$89,572,529</u>	<u>\$88,311,591</u>

Securities Lending

GASB Statement No. 28 "Accounting and Financial Reporting for Securities Lending Transactions," establishes accounting and financial reporting standards for securities lending transactions. The standard requires governmental entities to report securities lent as assets in their balance sheets. Cash received as collateral and investments made with that cash must also be reported as assets. The statement also requires the costs of the securities lending transactions to be reported as expenses separately from income received. In addition, the statement requires disclosures about the transactions and collateral related to them.

Securities are loaned versus collateral that may include cash, US government securities and irrevocable letters of credit. US securities are loaned versus collateral valued at 102% of the market value of the securities plus any accrued interest. In all cases the borrower provides more collateral than the value of securities lent. Therefore, there is no credit risk related to security lending transactions. Non-US securities are loaned versus collateral valued at 105% of the market value of the securities plus any accrued interest.

Non-cash collateral cannot be pledged or sold unless the borrower defaults.

All securities loans can be terminated on demand by either the lender or the borrower, although the average term of North Dakota Land's loans was approximately 52 days as of June 30, 2009.

Cash open collateral is invested in a short-term investment pool, the Core USA Collateral Section, which had an interest sensitivity of 15 days as of this statement date. Cash collateral may also be invested separately in "term loans", in which case the investments match the loan term. These loans can be terminated on demand by either lender or borrower.

On September 15, 2008, Lehman Brothers International Europe (LBIE) and on September 18, 2008, Lehman Brothers (LBI) were called into default on obligations under the terms of one or more of the Securities Borrowing Agreements. All clients were compensated for any security that was not returned from loan in accordance with the contractual obligations.

There were no violations of legal or contractual provisions, no borrower or lending agent default losses known to the securities lending agent.

There are no dividends or coupon payments owing on the securities lent. Securities lending earnings are credited to participating clients on approximately the fifteenth day of the following month.

Indemnification deals with the situation in which a client's securities are not returned due to the insolvency of a borrower and Northern Trust has failed to live up to its contractual responsibilities relating to the lending of those securities. Northern Trust's responsibilities include performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable Department of Labor and Federal Financial Institutions Examination Council regulations concerning securities lending.

The following represents the Board's balances related to securities lending activity:

Fiscal Year 2009

Security Type	Underlying Securities on Loan for Cash	Cash Collateral	Underlying Securities on Loan for Non-Cash Collateral	Non-Cash Collateral
GLOBAL Corporate Fixed	\$0	\$0		
US Agencies	4,231,504	4,332,105		
US Corporate Fixed	41,313,852	42,385,173		
US Equities	18,399,510	18,924,445		
US Government Fixed	6,556,630	6,715,123		
	\$70,501,496	\$72,356,846	\$0	\$0

Fair Value of Securities on Loan against Cash Collateral	\$70,501,496
Fair Value of Securities on Loan against Non Cash Collateral	\$0
Total Fair Value of Securities on Loan	\$70,501,496

Fiscal Year 2008

Security Type	Underlying Securities on Loan for Cash	Cash Collateral	Underlying Securities on Loan for Non-Cash Collateral	Non-Cash Collateral
GLOBAL Corporate Fixed	\$0	\$0		
US Agencies	11,717,447	12,000,874		
US Corporate Fixed	44,301,485	45,493,679	\$57,385	\$58,764
US Equities	28,717,231	29,536,627		
US Government Fixed	9,666,679	9,878,155	334,101	341,597
	\$94,402,482	\$96,909,335	\$391,486	\$400,361

Fair Value of Securities on Loan against Cash Collateral	\$94,402,842
Fair Value of Securities on Loan against Non Cash Collateral	\$391,486
Total Fair Value of Securities on Loan	\$94,794,328

Securities lending collateral is invested in investment pools and is not exposed to custodial credit risk.

NOTE 7 – FARM LOAN POOL

N.D.C.C. 15-03 authorizes the Board to invest in first mortgage farm loans. All purchased loans are credited to the pool and the investments, repayments, interest and income are credited to the various trusts in proportion to their participation. The pool is administered by the BND in accordance with standard banking practices, including executing all instruments on behalf of the Board and handling foreclosures. As of June 30, 2009 the non-current and current portions of the loans were \$35,577,679 and \$2,756,738 respectively. The same amounts as of June 30, 2008 were \$28,896,617 and \$1,673,999 respectively.

As of June 30, 2009 and 2008, the pool had net assets of \$42,378,806 and \$34,770,129 respectively. For the same period, the pool earned net income of \$2,608,677 and \$2,322,064.

NOTE 8 - COAL AND OIL AND GAS WARRANTS

The Board is authorized to make loans to coal and oil and gas development impacted counties, cities and school districts and other political subdivisions from the Coal Development Trust fund. A warrant is executed by the governing body as evidence of the loan. The loans bear interest at either six or two percent annually. The coal warrants are payable only from the borrowing entities share of coal severance tax collected and do not constitute a general obligation of the entity. Oil and gas warrants are payable from any funds of the borrowing entity and constitute a general obligation. No losses are anticipated on the warrants and an allowance has not been provided. As of June 30, 2009 the non-current and current portions of the loans were \$4,769,428 and \$337,552 respectively. The same amounts as of June 30, 2008 were \$5,133,707 and \$322,040 respectively.

NOTE 9 - DEVELOPMENTALLY DISABLED FACILITY LOAN FUND PROGRAMS NO. 2 & NO. 3

N.D.C.C. 6-09.6 created the Developmentally Disabled Facility Loan Fund Programs for the purpose of making loans to nonprofit corporations for the establishment of facilities for disabled persons. Program No. 2 was authorized to borrow \$5,000,000 and program No. 3, \$4,951,145 from the Common Schools Trust fund to finance the programs.

The programs are administered by the BND and are charged a fee of one-half percent of the principal balance of the outstanding loans. Principal and interest payments from the loans are deposited in the Lands and Minerals Trust fund after the deduction of loan administration fees. The loans are repaid through an appropriation from the Human Services Department fund with loan collections and other revenue sources that have been deposited in the Lands and Minerals Trust fund.

The loans bear interest at 9%, thereby causing a cash flow shortage in the Lands and Minerals Trust fund. Each year the fund must pay more to the Human Services Department fund than it will receive in loan collections from the Bank.

NOTE 10 - SCHOOL CONSTRUCTION LOANS

N.D.C.C. 15-60-10 was enacted in 1993 authorizing the Board to fund low interest school construction loans from the Coal Development Trust. The outstanding principal balance of loans made from this fund may not exceed forty million dollars.

A proposed construction project must be submitted and approved by the superintendent of public instruction. The application may be submitted before or after authorization of a bond issue in accordance with N.D.C.C. 21-03. The superintendent may also determine the loan amount and a percent of interest to be paid. To be eligible for a loan, the school district must have an existing indebtedness equal to at least fifteen percent of the school district's taxable valuation.

The interest on a loan cannot exceed a rate of two percent below the net interest rate on comparable tax-exempt obligations and the final interest rate may not exceed six percent.

The BND processes and services all loans. The Bank receives payments of principal and interest from the school districts and remits these payments to the Board for deposit in the Coal Development Trust fund. As of June 30, 2009 the non-current and current portions of the loans were \$30,683,257 and \$2,872,083 respectively. The same amounts as of June 30, 2008 were \$28,983,493 and \$2,576,398 respectively.

NOTE 11 - CAPITAL ASSETS

Governmental Activities:	Balance 7/01/08	Additions	Retirements	Balance 6/30/09
Land	\$7,836,550	\$0	(\$2,232)	\$7,834,318
Equipment	\$15,158			\$15,158
Less accumulated depreciation:				
Equipment	(5,714)	(2,872)		(8,586)
Net capital assets	<u>\$7,845,994</u>	<u>(\$2,872)</u>	<u>(\$2,232)</u>	<u>\$7,840,890</u>

Governmental Activities:	Balance 7/1/07	Additions	Retirements	Balance 6/30/08
Land	\$7,924,261	\$46,948	(\$134,659)	\$7,836,550
Equipment	6,350	8,808		15,158
Less accumulated depreciation:				
Equipment	(3,969)	(1,745)		(5,714)
Net capital assets	<u>\$7,926,636</u>	<u>\$54,011</u>	<u>(\$134,654)</u>	<u>\$7,845,994</u>

Under the provisions of the Enabling Act, land was granted to the State for the support of the common schools and other institutions. Under Constitutional authority, no grant land may be sold for less than ten dollars an acre which is the value per acre used for balance sheet purposes. In fiscal year 2009, no acres were acquired or sold. In fiscal year 2008, 2.6 acres were acquired and none were sold.

The Board assumes ownership of all of the foreclosed farm loan pool properties pending disposition of the property. The foreclosed property is recorded at the lower of cost or fair value. No loans were foreclosed and two sales of farm real estate occurred during the current fiscal year.

All land held by the Board is considered a capital asset and not depreciable, and is recorded in the government-wide statements in accordance with GASB 34.

A total of \$2,872 and \$1,745 in equipment depreciation for fiscal years ending June 30, 2009 and 2008 was charged to the education function.

NOTE 12 – GENERAL LONG TERM DEBT

Governmental Activities:	Balance 7/1/08	Additions	Reductions	Amounts Due Within One Year	Amounts Due Thereafter	Balance 6/30/09
Other long-term liabilities:						
Compensated absences	<u>\$113,200</u>	<u>\$81,848</u>	<u>\$61,472</u>	<u>\$7,133</u>	<u>\$126,443</u>	<u>\$133,576</u>

Governmental Activities:	Balance 7/1/07	Additions	Reductions	Amounts Due Within One Year	Amounts Due Thereafter	Balance 6/30/08
Other long-term liabilities:						
Compensated absences	<u>\$114,706</u>	<u>\$72,526</u>	<u>\$74,032</u>	<u>\$6,046</u>	<u>\$107,154</u>	<u>\$113,200</u>

Assets of the Maintenance Fund are used to pay off these liabilities.

NOTE 13 - PENSIONS

The Board of University and School Lands participates in the North Dakota Public Employees' Retirement System administered by the State of North Dakota. The following is a brief description of the plans.

Defined Benefit Pension Plan:

NDPERS is a cost-sharing multiple-employer defined benefit pension plan covering substantially all classified employees of the Board of University and School Lands. The plan provides retirement, disability and death benefits. If an active employee dies with less than three years of credited service, a death benefit equal to the value of the employee's accumulated contributions, plus interest, is paid to the employee's beneficiary. If the employee has earned more than three years of credited service, the surviving spouse will be entitled to a single payment refund, life-time monthly payments in an amount equal to 50% of the employee's accrued normal retirement benefit, or 60 monthly payments equal to the employee's accrued normal retirement benefit calculated as if the employee were age 65

the day before death occurred or monthly payments in an amount equal to the employees' accrued 100% joint and survivor retirement benefit if the member had reached normal retirement age prior to date of death. If the surviving spouse dies before the employee's accumulated pension benefits are paid, the balance will be payable to the surviving spouse's designated beneficiary.

Eligible employees' who become totally disabled after a minimum of 180 days of service, receive monthly disability benefits that are equal to 25% of their final average salary with a minimum benefit of \$100. To qualify under this section, the employee must meet the criteria established by the Retirement Board for being considered totally disabled.

Employees are entitled to unreduced monthly pension benefits equal to 2.00% of their final average salary for each year of service beginning when the sum of age and years of credited service equal or exceed 85, or at normal retirement age (65). The plan permits early retirement at ages 55-64, with three or more years of service.

Benefit and contribution provisions are administered in accordance with chapter 54-52 of the North Dakota Century Code. This state statute requires that 4% of the participant's salary be contributed to the plan by either the employee or by the employer under a "salary reduction" agreement. The Board of University and School Lands has implemented a salary reduction agreement and is currently contributing the employees share. The Board of University and School Lands is required to contribute 4.12% of each participant's salary as the employer's share. The required contributions are determined using an entry age normal actuarial funding method. The North Dakota Retirement Board was created by the State Legislature and is the governing authority of NDPERS. The Board of University and School Lands' required and actual contributions to NDPERS for the fiscal years ended June 30, 2009, 2008, and 2007 were \$81,576, \$77,026, and \$75,613 respectively.

NDPERS issues a publicly available financial report that includes financial statements and the required supplementary information for NDPERS. That report may be obtained by writing to NDPERS; 400 East Broadway, Suite 505, PO Box 1214, Bismarck, ND 58502-1214.

NOTE 14 - OTHER POSTRETIREMENT BENEFITS

Former employees receiving retirement benefits under the Retirement Plan of the Land Dept. are eligible to participate in the Retiree Health Benefits Fund, a cost-sharing multiple-employer plan, as administered by the Public Employees Retirement Board. The retired employee is provided a credit toward their monthly health insurance premium under the state health plan based upon their years of credited service. In accordance with NDCC 54-52.1-03.2, the Land Dept. reimburses the Retiree Health Benefits Fund monthly for credit received by members of the retirement plan.

The benefits, fully paid by the Agency, are equal to \$4.50 for each of the employee's, or decreased employee's years of credited service not to exceed the premium in effect for selected coverage. For this pay-as-you-go plan, total agency expenditures for the periods ending June 30, 2009 and 2008 were \$8,875 and \$6,176.

NOTE 15 - RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts, theft, damage, destruction of assets, errors and omissions, injuries to employees and natural disasters. The Board participates in the following funds or pools:

The Risk Management Fund (RMF) was created in 1995 and is an internal service fund to provide a self-insurance vehicle for the liability exposure of state agencies resulting from the elimination of the state's sovereign immunity. The RMF manages the tort liability of the state, its agencies' employees, and the University System. All state agencies participate in the RMF and their fund contribution was determined using a projected cost allocation approach. The statutory liability of the State is limited to a total of \$250,000 per person and \$1,000,000 per occurrence.

The Board pays an annual premium to the Fire and Tornado Fund to cover property damage to personal property. Replacement cost coverage is provided by estimating replacement cost in consultation with the Fire and Tornado Fund. The Fire and Tornado Fund is reinsured by a third party insurance carrier for losses in excess of one million dollars per occurrence during a twelve month period. The State Bonding Fund currently provides the Board with blanket fidelity bond coverage in the amount of \$3,000,000 for its employees. The State Bonding Fund does not currently charge any premium for this coverage.

North Dakota Workforce Safety and Insurance is an enterprise fund of the State of North Dakota. The Bureau is a state insurance fund and a "no fault" insurance system covering the State's employers and employees financed by premiums assessed to employers. The premiums are available for the payment of claims to employees injured in the course of employment.

There have been no significant reductions in insurance coverage from the prior year and settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 16 - DUE TO / DUE FROM

Fund	2009		2008	
	Due from other funds	Due to other funds	Due from other funds	Due to other funds
Maintenance Fund		\$1,038,553		\$6,617,686
Land and Minerals Trust	\$184,910		\$1,309,495	
Non major permanent funds	106,677	261	410,818	
Common Schools	750,887	4,254	4,893,327	
Capitol Trust	1,329		4,046	
Coal Development Trust		735		
EDIO				
	<u>\$1,043,803</u>	<u>\$1,043,803</u>	<u>\$6,617,686</u>	<u>\$6,617,686</u>

As stated in Note 1 of these financial statements, the Board of University and School Lands is a state agency of North Dakota; as such, the other state agencies of the state and political subdivisions are related parties.

Fund	Due from other state agencies	Due to other state agencies	Due from other state agencies	Due to other state agencies
Land and Minerals Trust:				
Bank of North Dakota	\$43,774		\$45,617	
	<u>43,774</u>		<u>45,617</u>	
Coal Development Trust:				
State Treasurer	530,060	\$371,042	533,193	\$373,235
	<u>530,060</u>	<u>371,042</u>	<u>533,193</u>	<u>373,235</u>
Maintenance Fund:				
Attorney General		2,730		2,233
Dept. of Transportation		3,676		1,931
Information Technology Department		5,398		4,263
Central Services				680
State Historical Society				
		<u>11,804</u>		<u>9,107</u>
Permanent Funds:				
State Treasurer	3,286,703		5,085,001	
Developmentally Disabled Facility Loan No. 2			215,843	
Developmentally Disabled Facility Loan No. 3	1,186,002		1,432,893	
Bank of North Dakota		79,894		60,798
	<u>4,472,705</u>	<u>79,894</u>	<u>6,733,737</u>	<u>60,798</u>
Total Due To/Due From	<u>\$5,046,539</u>	<u>\$462,740</u>	<u>\$7,312,547</u>	<u>\$443,140</u>

NOTE 17 – TRANSFERS IN AND OUT

Fund	2009		2008	
	Transfers from other agencies	Transfers to other agencies	Transfers from other agencies	Transfers to other agencies
Permanent Funds:				
Department of Public Instruction		\$33,400,000		\$33,400,00
N.D.S.U.		535,000		535,000
School for the Blind		88,000		88,000
School for the Deaf		155,000		155,000
State Hospital		195,000		195,000
Ellendale		84,000		84,000
Valley City State University		113,000		113,000
Mayville State University		78,000		78,000
Industrial School		189,000		189,000
School of Science		169,000		169,000
School of Mines		185,000		185,000
Veterans Home		107,000		107,000
U.N.D.		302,000		302,000
		<u>35,600,000</u>		<u>35,600,000</u>
Coal Development Trust:				
Lignite Research Fund		2,398,605		2,297,827
General Fund of North Dakota		1,595,841		1,960,267
		<u>3,994,446</u>		<u>4,258,094</u>
Land and Minerals:				
General Fund of North Dakota		15,911,000		587,349
		<u>15,911,000</u>		<u>587,349</u>
Capitol Building Trust:				
Facilities Management		286,952		201,500
		<u>286,952</u>		<u>201,500</u>
Total Transfers		<u><u>\$55,792,398</u></u>		<u><u>\$40,646,943</u></u>

NOTE 18 - OFFICE LEASE COMMITMENT

The Board's administrative agent, the Office of Commissioner of University and School Lands (State Land Department) rents office space owned by the Common Schools Trust Fund. The Land Department's commitment to rent its office space from the Common Schools Trust is continuous, with periodic adjustments made in accordance with acceptable management practices and market conditions. For the periods ending June 30, 2009 and 2008 rent of \$11,889 and \$11,889 was paid by the non-Common Schools Trusts and the book value of the building was \$717,474 and \$757,691 respectively. The book value of the building is included in the Investments line of the balance sheet.

NOTE 19 - PERMANENT FUND DISTRIBUTION POLICY

State law permits the Board to use one-tenth of the realized gains and losses in the current and previous years to be included in its calculation of income available for distribution in the current year. When determining the amount of distribution from any of the permanent educational trusts, the Board must consider both the preservation of trust corpus and its ability to produce income for future years and the demands for distribution of current income. Any realized gains and losses that are spent must be spent for the purposes for which the trust was established.

Any income in excess of the amount of distribution for the current year can be acted on in one of three ways by the Board:

1. Distribute to the fund beneficiary all or a portion of the income in excess of the previous fiscal year's distribution;
2. Retain for distribution in future years all or a portion of the income in excess of the preceding fiscal year's distribution in an amount not to exceed ten million dollars; or
3. Add to the permanent fund all or a portion of the income in excess of the preceding fiscal year's distribution.

At June 30, 2009 and 2008, realized gains and losses available for distribution in the current year totaled \$7,644,445 and \$13,867,520 respectively for the permanent educational trusts. This amount is included in restricted net assets - expendable, in the government-wide statement of net assets.

On June 30, 2009 Attorney General Stenehjem certified to Secretary of State Jaegar that recent amendments to two federal statutes, the 1889 Enabling Act and the 1862 Morrill Act, removed any inconsistencies between those federal laws and sections 1 and 2 of article IX of the North Dakota State Constitution. With that certification, the historic changes that were approved by North Dakota voters as Constitutional Measure No. 1 during the November 7, 2006 general election became effective on July 1, 2009. Effective July 1, 2009 biennial distributions from the perpetual trust funds will be ten percent of the five-year average value of trust assets, excluding the value of lands and minerals. Equal amounts must be distributed during each year of the biennium.

NOTE 20 - PRIOR PERIOD ADJUSTMENT

This adjustment resulted from how the Board reported land values in prior years. A prior period adjustment was necessary to delete land values from the governmental fund financial statements as an investment, they are reported on the government-wide financial statement as a capital asset per GASB 34.

Fund balances of July 1, 2008, which reflect the prior period adjustments are as follows:

Common Schools Fund:

Fund Balance	\$887,092,909
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Other Governmental Funds:

Fund Balance	\$58,876,707
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BOARD OF UNIVERSITY AND SCHOOL LANDS
Bismarck, North Dakota
Combining Balance Sheet
Normal Governmental Funds
June 30, 2009

	Permanent Funds										Special Revenue Funds				Total	
	M.D.S.L.	School for the Blind	School for the Deaf	State Hospital	Elmendorf	Valley City State U.	Mayville State U.	Industrial School	School of Sciences	School of Mines	Veterans Home	U.M.W.	Total	Indian Cultural Education	Capitol Building	Nonmajor Governmental Funds
ASSETS																
Cash	\$83,772	\$15,612	\$17,398	\$18,679	\$12,295	\$15,700	\$11,039	\$24,257	\$18,478	\$18,890	\$15,164	\$29,308	\$254,386	\$0	\$1,465	\$1,465
Investments	11,316,441	1,705,740	3,843,120	5,313,364	1,794,288	2,253,187	1,482,746	3,798,008	4,297,243	5,368,004	1,966,289	5,903,780	48,724,828	484,749	1,329,807	\$51,538,882
Interest receivable	122,850	1,500,000	33,590	38,124	20,247	26,311	19,109	45,891	35,839	36,608	23,741	57,157	483,170	14	204	\$483,386
Accounts receivable	62,770	2,642	23,091	28,812	46,031	15,691	4,293	8,298	43,800	57,526	910	39,833	331,715	2,452		\$2,462
Invested securities lending collateral	880,100	123,164	284,753	385,715	130,180	183,013	105,451	274,980	312,062	387,842	141,561	425,573	3,593,474	35,097		\$3,628,571
Loans	761,555	147,005	208,736	213,873	137,074	173,489	124,891	295,543	217,631	219,625	172,234	348,462	3,021,108			\$3,021,108
Farm loans	14,898	2,335	10,348	23,180	372	595	248	2,013	21,248	29,371	345	2,004	105,677	1,329		\$1,329
Due from other funds										\$5,118,590	\$2,320,244	\$6,807,185	\$57,515,158		\$1,333,302	\$1,333,302
Total Assets	\$13,797,292	\$2,017,089	\$4,520,963	\$6,022,757	\$2,140,487	\$2,647,896	\$1,727,736	\$4,448,816	\$4,946,301	\$6,118,590	\$2,320,244	\$6,807,185	\$57,515,158	\$57,515	\$1,333,302	\$59,399,873
LIABILITIES																
Accounts payable	\$9,617	\$1,233	\$2,855	\$3,864	\$1,304	\$1,633	\$1,058	\$2,745	\$3,127	\$3,865	\$1,419	\$4,264	\$6,002,000			\$351
Securities lending collateral	880,100	123,164	284,753	385,715	130,180	183,013	105,451	274,980	312,062	387,842	141,561	425,573	\$3,593,474.00			\$3,628,571
Due to other state services	1,586	307	435	445	295	362	260	616	453	458	359	728	\$6,294.00			\$6,294
Due to other funds			66					21	37	137			\$261.00			\$261
Total Liabilities	870,303	124,704	288,109	390,024	131,769	185,008	106,767	277,442	315,679	392,322	143,339	430,565	3,636,031	35,448		3,671,479
Equity																
Fund Balance:																
Reserved	12,804,033	1,869,794	4,198,346	5,593,609	1,968,471	2,458,577	1,601,860	4,125,193	4,584,783	5,699,662	2,153,164	6,318,483	\$3,395,965			\$3,395,965
Unreserved	122,856	22,591	33,508	38,124	20,247	26,311	19,109	45,891	35,839	36,608	23,741	57,157	483,170	486,697	1,333,302	2,350,538
Total Fund Balance	12,926,889	1,892,385	4,231,854	5,631,733	2,008,718	2,484,888	1,620,969	4,171,174	4,620,622	5,736,270	2,176,905	6,375,640	\$3,879,135	491,394	1,333,302	\$5,986,463
Total Liabilities and Fund Balance	\$13,797,292	\$2,017,089	\$4,520,963	\$6,022,757	\$2,140,487	\$2,647,896	\$1,727,736	\$4,448,816	\$4,946,301	\$6,118,590	\$2,320,244	\$6,807,185	\$57,515,158	\$57,515	\$1,333,302	\$59,399,873

JUNE 30, 2008

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BOARD OF UNIVERSITY AND SCHOOL LANDS
Blainville, North Dakota
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
Normal Governmental Funds
June 30, 2008

	Revenues:		Permanent Funds										Special Revenue Funds			Total
	M.D.S.U.	State	State	State	State	State	State	State	State	State	State	State	State	State	State	
Investment income	\$575,209	\$53,213	\$158,185	\$216,191	\$78,707	\$107,578	\$73,319	\$181,352	\$177,722	\$201,895	\$99,512	\$287,823	\$2,240,508	\$42,010	\$17,280	\$59,290
Loan income	48,981	9,455	13,425	13,758	8,816	11,159	8,032	19,008	13,997	14,128	11,077	22,478	\$194,308			\$0
Farm loans	(1,133,045)	(175,498)	(334,226)	(462,238)	(164,759)	(229,891)	(154,248)	(384,440)	(390,440)	(433,687)	(209,373)	(606,251)	(4,686,953)		(80,012)	(4,766,965)
Increase in fair value of investments	2,563	395	804	1,068	377	516	345	867	886	1,020	469	1,370	\$10,728			\$0
Securities lending income	1,333,035	107,384	613,786	760,580	135,894	118,030	19,451	230,201	641,698	874,665	38,469	203,887	\$5,081,970	885,050		\$5,766,920
Royalties and bonuses	153,149	32,482	49,695	55,344	47,343	50,303	32,689	50,652	39,508	37,132	22,163	113,694	\$684,554	112,171	3,900	\$116,071
Rental income																\$800,625
Oil and gas tax revenue																
Donations																\$873,622
Total Revenues	979,922	57,523	501,867	590,689	106,178	50,084	(20,452)	97,493	483,383	584,951	(39,673)	23,189	3,545,014	839,231	614,790	4,899,035
Expenditures:																
Current:																
General government														15,495	2,277	15,495
Intergovernmental																
Education																
Total Expenditures	82,556	14,225	24,358	25,468	18,013	20,233	13,287	28,509	23,807	26,251	15,131	47,567	339,405	15,495	2,277	339,405
Excess of revenue over expenditures	897,366	43,298	477,509	565,221	88,165	39,851	(33,689)	68,984	459,576	658,700	(54,804)	(24,378)	3,205,609	823,736	612,513	4,641,858
Other Financing Sources (Uses):																
Transfer to Educational institutions	(535,000)	(85,000)	(155,000)	(195,000)	(84,000)	(113,000)	(78,000)	(189,000)	(189,000)	(185,000)	(107,000)	(302,000)	(2,200,000)	(201,500)	(201,500)	(2,200,000)
Transfer to Facilities Management	14,532	3,114	4,982	2,768	3,737	4,587	2,491	4,290	3,322	4,390	3,598	9,688	61,448			61,448
Proceeds from sale of capital assets	(520,468)	(84,888)	(150,018)	(192,232)	(80,263)	(108,433)	(75,509)	(184,710)	(155,678)	(180,840)	(103,402)	(282,312)	(2,138,551)	(201,500)	(46,922)	(2,385,952)
Capital outlay expenses																
Total Other Financing Uses	375,868	(41,588)	(327,291)	(372,898)	(79,792)	(68,872)	(109,198)	(113,729)	(303,878)	(489,050)	(158,209)	(318,640)	1,067,058	(201,500)	(46,922)	(2,385,952)
Net Change in Fund Balance	14,160,781	2,295,452	4,171,557	5,584,742	2,123,713	2,981,519	2,048,874	4,946,241	4,856,876	5,207,153	2,780,324	7,850,458	58,818,070	906,045	906,045	59,722,715
Fund Balance - July 1, As Previously Stated	(183,189)	(41,543)	(59,062)	(28,435)	(67,816)	(58,028)	(37,407)	(47,207)	(44,802)	(43,524)	(35,396)	(106,842)	(748,089)	(86,919)	(86,919)	(848,008)
Prior Period Adjustment																
Fund Balance - July 1, As Restated	13,977,592	2,253,889	4,112,495	5,556,307	2,055,897	2,902,883	2,011,467	4,899,034	4,812,074	5,163,629	2,744,928	7,741,578	58,070,581	805,126	805,126	58,875,707
Fund Balance - ending	\$14,374,490	\$2,212,301	\$4,439,786	\$5,899,306	\$2,073,789	\$2,834,121	\$1,962,659	\$4,762,306	\$4,815,352	\$5,851,689	\$2,588,722	\$7,424,896	\$58,137,639	\$1,428,336	\$1,428,336	\$59,565,975



CPAs & BUSINESS ADVISORS

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

The Governor of North Dakota
Legislative Audit and Fiscal Review Committee

Board of University and School Lands
Bismarck, North Dakota

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund of the Board of University and School Lands as of and for the year ended June 30, 2009 and have issued our report thereon dated December 16, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Board of University and School Land's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Board of University and School Land's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Board of University and School Land's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control. We consider the deficiencies described in the accompanying schedule of findings and responses as deficiencies 09-1, 09-2, and 09-3 to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Board of University and School Lands' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

The Board of University and School Lands' responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Board of University and School Lands' responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Governor, Legislative Audit and Fiscal Review Committee, and management and is not intended to be and should not be used by anyone other than these specified parties.

Eide Bailly LLP

December 16, 2009
Bismarck, North Dakota

BOARD OF UNIVERSITY AND SCHOOL LANDS
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED JUNE 30, 2009

09-1 Recording of Transactions

Condition: We identified a misstatement in the Board's financial statements causing us to detect a material audit adjustment.

Criteria: A good system of internal accounting control contemplates proper reconcilements of all general ledger accounts and adjustments of those accounts to the reconciled balances.

Cause: The Board did not have a process in place to capture the recording of all oil and gas royalty receivables applicable to the fiscal year.

Effect: Inadequate internal controls over the recording of these receivables resulted in a misstatement in amounts that were material in relation to the financial statements.

Recommendation: We recommend that a process be put in place to ensure that all receivable accounts properly reconciled and adjustments made for any differences noted.

Response: The Board does have a system to arrive at an account receivables number for the previous month-end balance sheet accounting by verifying actual payments received the following month. The audit suggested instead using actual payment information two-months later as that will capture even more of the late royalty payors. The Board concurs that a longer delay for the calculation provides a better number and will therefore adjust our systems in that manner. It is recognized that even with a two-month delay, not all the late or unpaid royalty information is captured, but it does provide a better number such that it should no longer rise to the level of a material misstatement.

09-2 Preparation of Financial Statements

Condition: We identified misstatements in the Board's financial statements causing us to detect significant corrections to the Board's financial statements.

Criteria: Management is responsible for the correct presentation and reporting of the items in the Board's financial statements.

Cause: Inadequate internal controls over preparation of financial statements affected the Board's ability to detect misstatements in amounts that would be material in relation to the financial statements.

Effect: Inadequate internal controls over preparation of financial statements resulted in misstatements in amounts that were material in relation to the financial statements.

Recommendation: We recommend that management should ensure that a process is in place related to the preparation of financial statements which will detect misstatements so these misstatements will get corrected.

Response: The Board concurs with the recommendation. Additional procedures are being implemented to ensure financial statements are properly prepared and any misstatements are detected and corrected.

(continued on next page)

09-3 Prior Period Adjustment

Condition: An adjustment had to be made to the fund financial statements to take land, a capital asset, off of these statements. Per GASB 34, capital assets are only reported on government-wide financial statements and not on the fund financial statements.

Criteria: Management is responsible for the correct presentation and reporting of the items in the Board's financial statements.

Cause: After a detailed review of GASB 52, the Board of University and School Land's management determined that land was being incorrectly reported as an investment when it should be reported as a capital asset. Since these lands were acquired through granting of Statehood and loan foreclosures and not for the purpose of making a profit they felt to report them as investments was inaccurate.

Effect: Due to the change in the way management reports land it was required to make a prior period adjustment to the fund financial statements in amounts that were material in relation to the financial statements.

Recommendation: We recommend that management should ensure that a process is in place related to the preparation of financial statements to ensure all assets are being properly recorded and reported in accordance with GASB.

Response: The Board's management reviewed how grant land and foreclosed properties were being reported on the fund financial statements. Management determined these properties should be reported as a capital asset since they were not acquired with the primary purpose of obtaining income or profit in accordance with GASB 52. The Board concurs with the recommendation and will work to ensure all assets are being properly recorded and reported.



CPAs & BUSINESS ADVISORS

**BOARD OF UNIVERSITY AND SCHOOL LANDS
INDEPENDENT AUDITOR'S SPECIFIC COMMENTS REQUESTED BY THE
NORTH DAKOTA LEGISLATIVE AUDIT AND FISCAL REVIEW COMMITTEE
YEAR ENDED JUNE 30, 2009**

The Legislative Audit and Fiscal Review Committee requires that certain items be addressed by independent certified public accountants performing audits of State agencies. The items and our responses regarding the June 30, 2009 audit of the Board of University and School Lands are as follows:

Audit Report Communications:

1. What type of opinion was issued on the financial statements?

Unqualified

2. Was there compliance with statutes, laws, rules and regulations under which the Agency was created and is functioning?

Yes.

3. Was internal control adequate and functioning effectively?

See findings identified on page 34.

4. Were there any indications of lack of efficiency in financial operations and management of the Agency?

No

5. Was action taken on prior audit findings and recommendations?

Yes, improvements were made, but still findings noted in CY.

6. Was a management letter issued? If so, provide a summary below, including any recommendations and the management responses.

Yes, a separate management letter has been issued and is attached following page 38, however there were no additional findings or recommendations noted in this letter.

Audit Committee Communications:

- 1. Identify any significant changes in accounting policies, any management conflicts of interest, any contingent liabilities, or any significant unusual transactions.**

In the current year, the Board changed the way they reported land. They no longer feel that land should be recorded as an investment due to the nature of the entity and they now are recording it as a capital asset in accordance with GASB 34.

- 2. Identify any significant accounting estimates, the process used by management to formulate the accounting estimates, and the basis for the auditor's conclusions regarding the reasonableness of these estimates.**

None

- 3. Identify any significant audit adjustments.**

There was material audit adjustments detected during the audit. The material audit adjustments are detailed in the management letter following page 38.

- 4. Identify any disagreements with management, whether or not resolved to the auditor's satisfaction, relating to financial accounting, reporting, or auditing matter that could be significant to the financial statements.**

None

- 5. Identify any significant difficulties encountered in performing the audit.**

None

- 6. Identify any major issues discussed with management prior to retention.**

None

- 7. Identify any management consultations with other accountants about auditing and accounting matters.**

The agency does not consult with any other accountants regarding auditing or accounting matters.

- 8. Identify any high-risk information technology systems critical to operations based on the auditor's overall assessment of the importance of the system to the agency and its mission or whether any exceptions identified in the six audit report questions addressed above are directly related to the operations of an information technology system.**

The State Lands Information Management System (SLIMS) is a database application that supports the Board's business process over management of state lands, mineral and surface leases, royalties, investments, grants management, and general ledger accounting. There were no exceptions identified that were directly related to the SLIMS database application.

This report is intended solely for the information and use of the Board of University and School Lands, Legislative Audit and Fiscal Review Committee, and management, and is not intended to be and should not be used by anyone other than these specified parties

Eide Bailly LLP

December 16, 2009
Bismarck, North Dakota